

Inception Note(draft)

Strengthening the governance and reporting by State Owned Enterprises

January 2025



THE WORLD BANK

 **EnerTEAM**

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1. Objectives of the Inception Report



1. Objectives of the Inception Report



This report establishes the foundation for the project, focusing on key areas to enhance SOE governance and transparency. The main objectives are:



Scope

Discuss the scope of work and expected deliverables



Approach

Outline the methodology and tools to achieve project goals efficiently



Planning & Governance

Validate project timelines and governance structure to ensure alignment with objectives.



Next Steps

Identify immediate actions and consolidate the preliminary document request for effective implementation.

2. Context



2. Context



Transparency and governance in Iraq's Extractive Sector

The **Extractive Industries Transparency Initiative (EITI)** plays a critical role in promoting transparency and accountability in Iraq's oil and gas sector, which generates approximately **90% of public revenues (2022)**.



Key challenges

Despite progress, Iraq faces persistent challenges, including:

- **Incomplete data disclosures** from State-Owned Enterprises (SOEs).
- **Quasi-fiscal expenditures** that are not fully captured in public records.
- **Opaque financial relationships** between SOEs and the government.



The way forward

Strengthening the governance and transparency of SOEs is **vital** for:

- **Economic stability.**
- **Building public trust.**
- **Achieving full compliance with EITI standards.**

4. Mission Objectives



4. Mission Objectives



Enhance governance, transparency, and accountability of SOEs in alignment with EITI requirements.



Specific Objectives



1

Assessment of SOE governance



- Evaluate governance frameworks of SOEs against EITI 2023 standards and international best practices.
- Focus on state participation, financial management, and anti-corruption mechanisms.

2

Analysis of financial transactions



- Review the financial relationships between SOEs and the government.
- Assess quasi-fiscal expenditures, domestic sales, debt management, and ensure transparency.

3

Compliance with EITI Requirements



- Address gaps in meeting EITI Requirements 2.6, 4.2, 4.3, 4.5, and 6.2.
- Propose corrective actions to align with the 2023 standards.

4

Anti-Corruption Assessment



- Analyze anti-corruption practices within SOEs.
- Provide guidance on integrating transparency and governance improvements based on EITI Standard.

3. Key Components & Scope



3. Mission scope & key components



Key Components



Assessment of SOE governance and EITI reporting



Strengthening compliance with EITI Requirements (2.6, 4.2, 4.3, 4.5, 6.2)



**EITI requirement 2.6
Governance & SOE participations**



**EITI requirement 4.2
In-kind payments and oil sales by SOEs**



**EITI requirement 4.3
Infrastructure provisions and barter arrangements**



**EITI requirement 4.5
Transactions between SOEs and the State**



**EITI requirement 6.2
Quasi-fiscal expenditures by SOEs**



**EITI requirement 1.2
SOE Anticorruption policies**



Scope of our project

Objective: Assess SOE compliance with EITI standards and strengthen transparency, accountability, and EITI reporting.

Coverage: SOE involved in exploration, production, transportation, and marketing.

Focus Areas:

- Financial relationships between SOEs and the government.
- Governance practices and board operations.
- Social expenditures and quasi-fiscal activities.

5. Reference Framework



5. Reference Framework



Relevant Texts 1/3 (*)

Legislation		Description
Constitution of 2005	2005	Establishes the foundation for governance in the oil and gas sector, including resource management, state guarantees for investments, and outlining roles and obligations for resource optimization.
Public Companies Law No. 22 of 1997	1997	Governs State-Owned Entities (SOEs), including their formation, operations, financial transparency, and profit-sharing obligations
Organization of Ministry of Oil Law No. 101	1976	Defines the Ministry of Oil's responsibilities, including oversight of national oil policies, supervision of operational plans, resource management, and implementation of the "Preservation of Hydrocarbon Resources" framework.
The Law of Income Taxation on Foreign Oil Companies	2013	Regulates the taxation of revenues generated by foreign oil companies and their subcontractors, ensuring contributions to Iraq's fiscal system and economic stability.
Crude Oil Refining Investment Law No. 64 of 2007	2007	Promotes private sector investment in crude oil refining, supporting industrial growth and diversifying Iraq's economic base. It aims to enhance local industrial capacity and develop value-added downstream activities.

(*) Non exhaustive list

5. Reference Framework



Relevant Texts 2/3 (*)

Legislation		Description
Iraqi National Oil Company Law No. 4	2018	Establishes the Iraqi National Oil Company (INOC), outlining its mission, governance structure, and oversight of SOEs involved in oil and gas operations.
Law No. 9 "Royalties" on Oil and Gas products	1939	Specifies the framework for determining and collecting royalties on oil and gas products, ensuring revenue contributions to the national budget.
Guide to Oil and Gas Contracts in Iraq	2022	Summarizes key stipulations for oil and gas contracts, clarifying obligations for both Iraqi and foreign extractive companies, and promoting transparency in contractual agreements.
Mineral Investment Law No. 91	1988	Mandates the Iraqi Geological Survey and Mining Company to supervise and enforce laws governing mining investments, ensuring compliance and sustainable practices in mineral resource exploitation.
Iraqi Ministry of Industry and Minerals Law No. 38	2011	Defines the Ministry's objectives, including expanding non-oil mineral sector contributions to GDP, developing industrial policies, and promoting investment aligned with national strategies.

(*) Non exhaustive list

5. Reference Framework



Relevant Texts 3/3 (*)

Legislation		Description
Law No. 97 on the Allocation of Investment Areas	1967	This Law explain the Allocation of Investment Areas to the Iraqi National Oil Company (INOC)
National Integrity and Anti-Corruption Strategy 2021-2024	2021	Establishes priorities for combating corruption, institutionalizes preventive measures, and identifies roles and responsibilities across public sector functions to enhance integrity and accountability.
Investment Law No. 13 of 2006	2006	Encourages both Iraqi and foreign private sector investments to support economic growth, diversify production and services, and create job opportunities for citizens.
Federal budget law		Specific provisions related to SOE profit-sharing with the Ministry of Finance and requirements for financial transparency.
Financial Management Law No. 6	2019	Enhances SOE governance and their financial ties with the state through requirements for transparency, comprehensive reporting, and audits

(*) Non exhaustive list

5. Reference Framework



Key State-Owned Enterprises

Article 1 of the law No. 22 defines a public state entity: “a self-funded economic unit which is fully owned by the state, has a legal personality, is financially and economically independent, and operates according to economic bases”.

Basra Oil Company (BOC)

Basra Gaz Company (BOC)

State Oil Marketing Organization (SOMO)

North Oil Company (NOC)

Oil Pipelines Company (OPC)

Oil Exploration Company (OEC)

North Gas Company (NGC)

South Gas Company (SGC)

Thi-Qar Oil Company (TOC)

Midland Oil Company (Mdoc)

Missan Oil Company (MOC)

State company for Oil Projects (SCOP)

Oil Products Distribution Company (OPDC)

Iraqi Cement State Company (ICSC)

State Company for Mining Industries (SCMI)

State Company of Phosphate (SCP)

Mishraq Sulfur State Company



Institutional Framework

Ministry of Oil

Development Fund of Iraq (DFI)

Petroleum Contracts and Licensing Department (PCLD)

Ministry of Industry and Minerals

Ministry of Planning (MoP)

Ministry of Finance (MoF)

Central Bank of Iraq (CBI)

Federal Board Of Supreme Audit (FBSA)

EITI IRAQ

Commission of Integrity (Col)

Oil and Gas Sector

Mining Sector

Other stakeholders

6. Methodology & Approach



6. Methodology & Approach



Phases	Phase 1 Planning and Inception	Phase 2 Document Review	Phase 3 Data Collection	Phase 4 Data Analysis	Phase 5 Governance and Anti- Corruption	Phase 6 Draft Report and Review	Phase 7 Validation Workshop	Phase 8 Final Reporting
Main tasks to be performed	<ul style="list-style-type: none"> • Validate scope, methodology, and governance arrangements. • Present and finalize project plan. 	<ul style="list-style-type: none"> • Review SOE governance frameworks, EITI reports, and validation results. • Analyze audited and unaudited financial statements of SOEs. 	<ul style="list-style-type: none"> • Distribute tailored questionnaires/reporting template and conduct stakeholder interviews. • Validate accuracy and completeness of responses. 	<ul style="list-style-type: none"> • Compile and analyze collected data. • Review financial transactions and governance practices. • Assess SOE compliance with EITI standards. 	<ul style="list-style-type: none"> • Assess governance and anti-corruption mechanisms against EITI standards. • Identify gaps and propose corrective measures. 	<ul style="list-style-type: none"> • Draft the report based on findings. • Share draft report for feedback. 	<ul style="list-style-type: none"> • -Conduct validation workshop with stakeholders. • Collect feedback and refine the report. 	<ul style="list-style-type: none"> • Finalize the report incorporating feedback. • Translate deliverables into Arabic.
Deliverables	➤ Inception Report		➤ Data Collection Memo			➤ Draft Report		➤ Final Report ➤ Executive Summary

6. Methodology & Approach



Critical aspects of our approach (1/2)

1

Data collection and validation



Structured data collection: We will collect both financial and non-financial data through structured questionnaires, interviews, and document reviews.

Data validation: A strict data validation process will follow. Data from multiple sources will be cross-referenced, and expert reviews will be used to ensure accuracy. Financial data will be reconciled with official reports, with discrepancies investigated in consultation with stakeholders.

2

Scoring methodology for compliance



Customized scoring system: A customized scoring system will be used to evaluate SOE compliance with EITI standards, focusing on governance, financial transparency, and anti-corruption.

Governance and transparency assessment: We will assess SOE governance and transparency practices against the EITI standards and best practices using this scoring system, identifying areas that require improvement and compliance gaps.

3

Comparative Benchmarking



Iraq's anti-corruption and governance frameworks will be compared with international best practices, focusing on countries with strong governance in the extractive industry (high Corruption Perception Index rankings).

6. Methodology & Approach



Critical aspects of our approach (2/2)

4

Governance and Anti-Corruption Review



Governance framework review will be conducted, assessing the alignment of these frameworks with EITI standard.

Anti-corruption measures review: The anti-corruption measures in place within SOEs will be analyzed, focusing on how effectively they mitigate corruption risks.

5

Stakeholder Consultations



Ongoing stakeholder engagement: Throughout the project, consultations with SOEs will be critical. These engagements will ensure that diverse perspectives are considered in the analysis and recommendations.

6

Data and quality assurance



Data validation and verification: We will implement the ISRS 4400 standard to ensure the accuracy and completeness of all collected data.

Peer review process: Draft reports and key deliverables will undergo a peer review process by the team leader to ensure high-quality outputs and to address any potential gaps or areas for improvement before final submission

7. Project Governance



7. Project Governance



Roles

- ❖ Ensure stakeholders mobilization
- ❖ Approve project progress
- ❖ Approve the project deliverables



Frequency : At the closing of each phase requiring a deliverable

Roles

- ❖ Regular follow-up of the project progress
- ❖ Organize interviews and workshops
- ❖ Ensure project follow-up
- ❖ Contribution on deliverables
- ❖ Contribute to resolve issues



Frequency : After milestones & at request

Steering committee

Consultant

- ❖ Karim Lourimi

Project Stakeholders

- ❖ World Bank
- ❖ EITI IRAQ
- ❖ EITI International
- ❖ To be defined

Project Team

Consultant

- ❖ Karim Lourimi

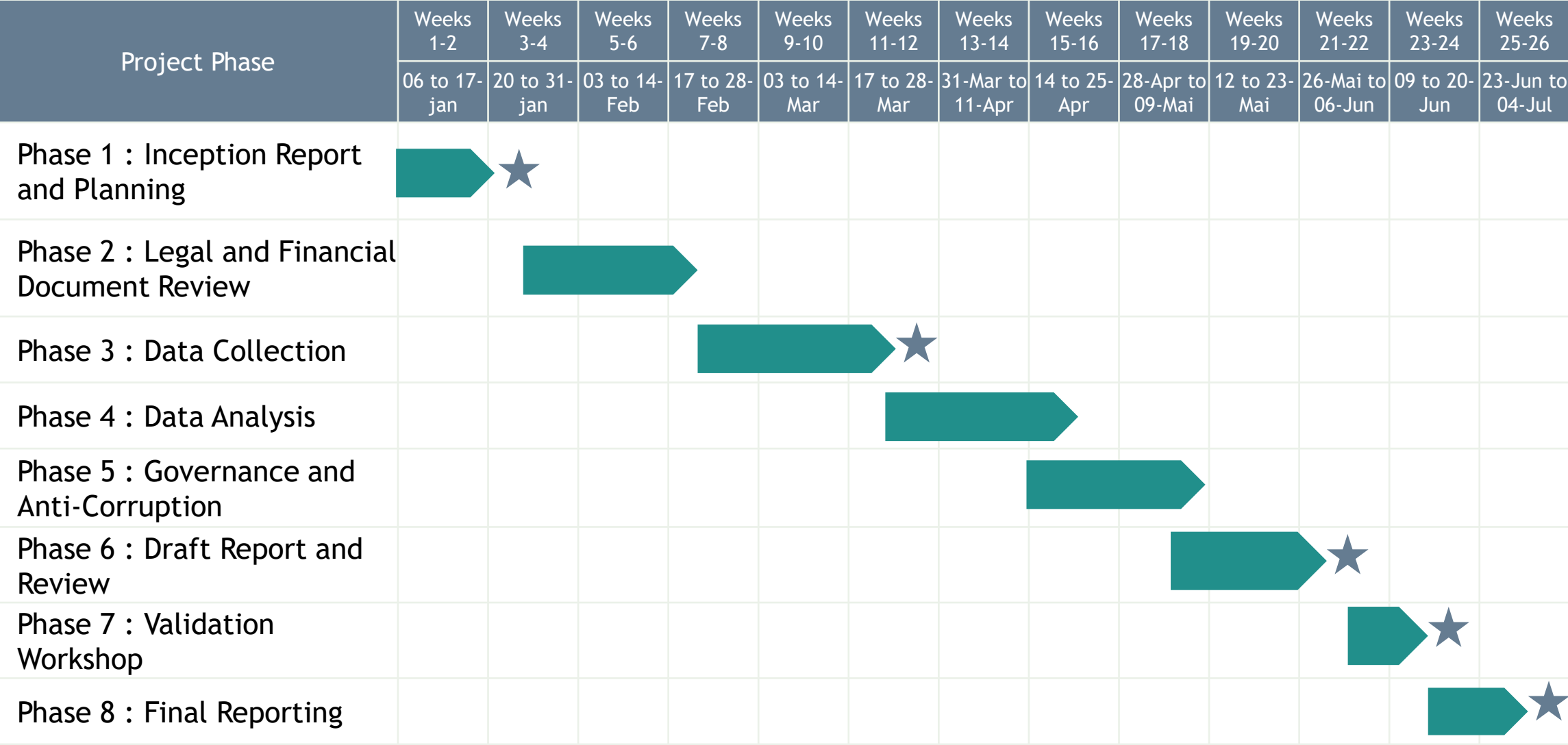
Project Stakeholders

- ❖ World Bank
- ❖ EITI IRAQ
- ❖ EITI International
- ❖ To be defined

8. Proposed Calendar



8. Proposed Calendar (do not yet account for client validation details)



9. Risk and Mitigation Strategy



9. Identified Risks and Limitations



Nature



Risk

Data accessibility and quality



Limited access to comprehensive and reliable SOE data, including financials and quasi-fiscal details. Existing EITI data often lacks critical elements.

Stakeholder engagement



Challenges in engaging SOEs due to logistical, security, or administrative constraints, impacting effective data sharing.

Complex legal and regulatory environment



Overlapping and unclear regulatory frameworks complicate SOE compliance with EITI standards.

Inconsistent data quality



Data from various sources can be incomplete or unreliable, affecting the analysis

9. Mitigation Strategy



Focus area



Mitigation approach

Use of Available Data



Prioritize existing data from IEITI reports, financial statements published on the IEITI Iraq website, and ongoing data collection for the 2022 and 2023 reports.

Targeted Data Collection



Develop specific questionnaires and reporting templates to address missing information.

Local expert engagement



Utilize a local expert for on-ground meetings and complementary data collection.

Prioritization of Key SOEs



Focus on the most significant SOEs to manage the scope effectively and ensure impactful outcomes.

Proactive coordination



Maintain regular coordination with stakeholders to streamline data access and address challenges promptly.



These strategies will effectively address the identified risks, ensuring the project's successful implementation and alignment with its objectives

10. Next steps & preliminary documents requested & key support for mission success



10. Next Steps



1

Kick Off Meeting

2

Initial data collection

3

Data Analysis Preparation

4

Governance and Compliance Analysis

11. Preliminary Documents requested



Requested Information/Document	Purpose	Structure in Charge
Audited or Unaudited Financial Statements (2021-2024)	To analyze financial transactions and compliance with EITI standards.	EITI Iraq with SOEs, MoF, and FBSA
Business or Management Reports (2021-2024)	To assess SOE performance and governance practices.	EITI Iraq with SOEs
Articles of Association of Selected Entities	To review SOE legal and governance frameworks.	EITI Iraq with SOEs
Data Collected for 2022 and 2023	To ensure completeness of SOE financial disclosures.	EITI Iraq, WB
Relevant Study Reports (2021-2024)	To identify gaps and recommendations on SOE governance.	EITI Iraq, WB
The most recent Iraq's anti-corruption report.	To evaluate anti-corruption frameworks in SOEs.	Col
FBSA Reports on Extractive Sector (2021-2024)	To assess audit findings and compliance of SOEs.	FBSA

12. Key support for mission success



1. EITI Iraq's Support

- Provide accurate and up-to-date contact details for all relevant stakeholders (EITI Committee, Ministries, SOEs, Civil Society).
- Communicate the mission's objectives and importance through official channels.
- Prepare and share an official introduction letter highlighting mission goals, expected outcomes, and stakeholder roles.
- Actively endorse and facilitate the distribution of questionnaires and meeting requests.

2. Key Success Factors

- Active advocacy and coordination by EITI Iraq to ensure stakeholder responsiveness.
- Timely and transparent communication with stakeholders.
- Commitment from stakeholders to participate actively in the process.

Thank you for your attention



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